

Cross-Cutting Management Issues

Highway Construction: Quarterly Update

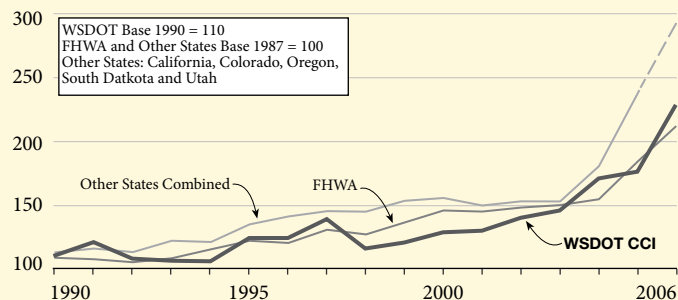
Construction Cost Trends

WSDOT prepares its construction cost estimates using historical information about market conditions drawn from recent bids. Like other state transportation departments, WSDOT must extrapolate for the future based on past records. WSDOT accumulates construction cost information and calculates a Construction Cost Index (CCI). The CCI is then compared against the experience of other states. This is plotted against the CCI of the Federal Highway Administration (FHWA) and a line representing the combined CCIs of several nearby western states: California, Colorado, Oregon, South Dakota and Utah. The graph below presents the past 16 years of CCI data for Washington State, FHWA, and the listed states.

2006 Construction Cost Index is up 30% over 2005

The average annual growth rate of the CCI held steady at about 1.5% per year from 1990 through 2001. Beginning in 2002 and continuing through 2005, the growth rate increased to 8% per year. In 2006, WSDOT's CCI increased 30% over 2005. Several factors have contributed to this increase including: increasing worldwide demand for construction materials; rising crude oil prices and other energy supply issues; and recent increases in national and international construction activity.

Construction Cost Indices Washington State, FHWA, and Other States



Data Sources: WSDOT Construction Office, Federal Highway Administration (FHWA)
Note: WSDOT 2006 Index is for the entire year; FHWA 2006 Data is for Quarters 1 & 2; Other States 2006 Data is for Quarters 1, 2 and 3 with South Dakota Data available for Quarters 1 & 2. 2003 and 2004 WSDOT CCI data points adjusted to correct for spiking bid prices on structural steel.

Calculating the Construction Cost Index

The following components (weighted as shown) are used to compute the CCI:

Hot Mix Asphalt (48.5%)	Structural Steel (6.9%)
Structural Concrete (17.4%)	Steel Reinforcing Bar (5.4%)
Roadway Excavation (10.7%)	Concrete Pavement (3.2%)
Crushed Surfacing (7.9%)	

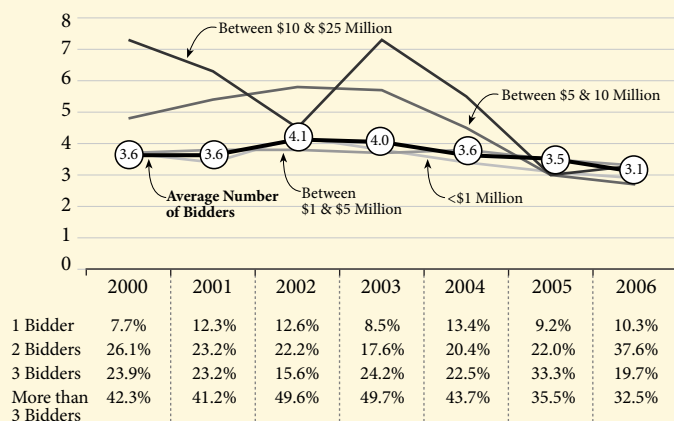
Only 52% of Projects Have Three or More Bidders

WSDOT's goal is to have three or more bidders for each highway construction project. However, large public and private construction programs in Washington, as well as at the national level, are contributing to a trend of fewer contractors submitting bids for WSDOT projects. The reduction in bidding competition is a sign that contractors have a full workload ahead of them. Unfortunately, this reduction in competition will tend to produce higher prices for WSDOT projects.

The average number of contractors bidding on each WSDOT project decreased 12% in 2006, from an average of 3.5 bidders in 2005 to an average of 3.1 bidders in 2006. The reduction in the number of bidders has been a trend since 2002, with significant downward movement occurring since 2004.

Average Number of Bidders

By Size of Contract



Data Source: WSDOT Construction Office